

SENDER WILL CHECK CLASSIFICATION TOP AND BOTTOM			
UNCLASSIFIED		CONFIDENTIAL	
<b>OFFICIAL ROUTING SLIP</b>			
TO	NAME AND ADDRESS	DATE	INITIALS
1	C/EA		✓
2	DD/SOVA	8/10	MD
3	DDI/Reg		
4	ADDI	11 AUG 1983	Ala
5	C/NIC		1/17/83
6			
ACTION		DIRECT REPLY	PREPARE REPLY
APPROVAL		DISPATCH	RECOMMENDATION
COMMENT		FILE	RETURN
CONCURRENCE		INFORMATION	SIGNATURE
<b>Remarks:</b> C/NIC Havary - would it be useful to sit down with [ ] & others & discuss further? [ ]			
<b>FOLD HERE TO RETURN TO SENDER</b>			
FROM: NAME, ADDRESS AND PHONE NO.			DATE
			10/8/83
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10 August 1983

MEMORANDUM FOR: Chairman, National Intelligence Council  
VIA: Acting Deputy Director for Intelligence *PK*  
FROM: [redacted]  
Deputy Director, Office of Soviet Analysis  
SUBJECT: Uncertainty in Estimates of Soviet Defense  
Spending in Recent Assessment [redacted]  
[redacted]

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1. The comments you offer to Dick Kerr on our recent Soviet defense spending paper raise a number of important issues we have tried to deal with ourselves. In fact, most were raised in discussion with Hans Heymann in March. After our first meeting with Hans, we collected our thoughts in the attached memo, which was subsequently discussed with him at length. [redacted]

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2. We believe that the spending paper reflects our collective "wisdom" on uncertainties in the spending estimates and their effect on our perception of the Soviet resource commitment to defense. For example, the inset on page 3 explicitly deals with the areas of uncertainty in our building block approach, including that of factor productivity, and the confidence we have in the estimate as a result of them. Appendix C further expands on the checks for bias we conducted on our 1983 estimate (pp 25-27). Our conclusion is that bottlenecks and productivity factors cannot have a large enough impact on our estimates to change the basic story--unless one is prepared to stake out a set of extreme positions. [redacted]

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3. Incidentally, the phenomenon of US cost escalation (you mention it in your letter) differs from those types we have discussed in the Soviet context. In the US case, overruns are generally associated with higher-than-anticipated inflation rates or increased costs caused by the incorporation of modifications to the original design after series production has begun rather than factor productivity problems. [redacted]

*couldn't  
this happen  
in USSR?*

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4. You also mention the argument that flat procurement could be "offset" in 1976-81 by costs resulting from the more lengthy RDT&E phase of the newer, more sophisticated Soviet weapon systems. We do state explicitly in the paper that longer development times "undoubtedly add to RDT&E expenditures in the

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SUBJECT: Uncertainty in Estimates of Soviet Defense Spending in Recent  
Assessment [REDACTED]  
[REDACTED]

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long run." It is not clear-cut, however, that R&D costs resulting from  
program delays would, if they could be estimated individually, offset  
sufficiently flat procurement. That would depend on the quantity and mix of  
labor and capital costs devoted to the R&D effort as opposed to series  
production. [REDACTED]

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Attachment  
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